

**Before the
Federal Communications Commission
Washington, DC 20554**

In the Matter of)	
)	
Wireline Competition Bureau Seeks)	WC Docket No. 13-184
Comment on Category Two Budgets)	

**SUPPLEMENTAL COMMENTS OF FUNDS FOR LEARNING, LLC
on
Implementation of the E-rate Category Two Budget System**

Funds For Learning, LLC (“FFL”) is a national, E-rate-compliance consulting and web services firm. Since the E-rate program began 20 years ago, FFL has dedicated itself exclusively to the needs of E-rate stakeholders. Our clients include some of the country’s smallest and largest E- rate applicants.

Last fall, CoSN, EducationSuperHighway, and Funds For Learning submitted comments in response to the Wireline Competition Bureau’s request for feedback on the E-rate Category Two (“C2”) budget system¹. One specific item addressed was the USAC requirement that applicants reduce their C2 funding requests to an amount equal to or less than the remaining C2 budget for a site, or be denied their C2 discount request. The purpose of this filing is to provide additional information concerning the impact of this practice on applicants.

USAC PROCEDURE RESULTS IN UNNECESSARY C2 DENIALS

The current USAC procedure requires an applicant to remove items and/or adjust unit costs to reduce the E-rate eligible cost of a project – cost the applicant must absorb – so that the funding request(s) equals no more than the remaining budget cap for each school or library site.

¹ <https://ecfsapi.fcc.gov/file/1024149156955/ESH%2C%20CoSN%2C%20FFL%2013-184%20NOI%20Comments%20Final.pdf>

For example, consider the case of Margaret A. Neary Elementary School in Southborough, MA (BEN 895). Southborough School District submitted a \$34,700 network infrastructure project for a 40% discount on Form 471 application 171048155, funding request number 1799109855. The project was denied funding by USAC with the following explanation:

“Your total requested Category Two pre-discount funding amount for BEN 895 exceeds this entity’s Category Two Budget by: \$196.63”

Rather than reduce the school site’s eligible project costs by \$196.63, USAC simply denied the project outright, and the net discount rate for the school went from 40% to 0%.

The requirement to reduce C2 funding requests is making the process much harder than it needs to be and is leading to many unnecessary denials. A change in the PIA procedures for handling these C2 funding requests could improve the application process for applicants, simplify the PIA steps for USAC, reduce delays in funding commitment decisions, increase C2 applicant participation rates, and even improve the accuracy of the data that the FCC receives.

C2 BUDGET DECISIONS ACCOUNT FOR ONE-FOURTH OF FY2017 C2 DENIALS

C2 budget-related denials are not limited to a handful of examples. Unfortunately, Margaret A. Neary Elementary School is not an outlier. In fact, C2 budget-related issues account for more than one-fourth of all C2 denials in FY2017. This is up significantly from FY2015 and FY2016.

Category Two Budget Denials

Summary (FY2015 - FY2017)

Funding Year	Count of FRNs	Denied	% of all C2 Denials \$ requested	Count of BENs	% of All C2 Denials # of Applicants
2015	218	\$4,832,189	2.2%	70	2.7%
2016	207	\$14,070,828	9.1%	108	5.4%
2017	680	\$36,883,739	25.6%	349	23.6%

Source: Funds For Learning® / E-rate Manager® as of February 6, 2018.

We believe that the current C2 budget denial procedure is having a chilling effect on applications for C2 discounts. Although we will never know how many applicants gave up applying for C2 discounts because of it, we can measure how many applicants submitted C2 requests that were denied because of the C2 budget calculation. In funding year 2017:

- 349 applicants received C2 denials because their project costs exceeded the USAC-calculate available budget. This is equivalent to 4% of all FY2017 C2 applicants.
- The applicants who were denied come from 49 states and include individual schools, school districts, libraries and consortium type applicants.
- The total denied amount in FY2017 is \$36,883,739. This is more than one-quarter of the total Category Two discounts denied to-date for FY2017.
- The attached table provides each FY2017 C2 budget denials as of February 6, 2018.

C2 BUDGET DECISIONS ACCOUNT FOR ONE-FOURTH OF FY2017 C2 DENIALS

It would be far easier for applicants if they could list their entire C2 project on an application and USAC simply reduce the committed amount to match the remaining budget amount. As mentioned in the October 23, 2017, joint CoSN/ESH/FFL filing:

A much more effective approach would be to allow districts to file their entire bill of materials with their Form 471 and simply limit the funding approved in the FCDL. This would eliminate the administrative burden on applicants and would also provide USAC, the Commission and the public with significantly greater transparency as to what applicants are using their Category Two budgets for and whether these budgets are sufficient.²

Instead, the current approach forces applicants requesting C2 discounts to adjust their applications to fit into the C2 budget caps, or receive a funding denial. This makes the process much more difficult and time-consuming for all parties. Furthermore, it becomes harder each year of the budget cycle to calculate the prior year's aggregated committed dollars and

² Ibid, page 12

determine the remaining available balance. To make matters worse:

- USAC routinely disregards a school's certified enrollment numbers in favor of other sources (thus changing the available budget amount, both after the fact and, routinely, without notifying the applicant).
- USAC has been slow to process Form 500s. We know of several instances in which applicants attempted to reduce a C2 funding commitment using a Form 500; however, because USAC had not processed the Form 500s, USAC's system showed an incorrect (and lower) available budget amount, and funding requests were denied.
- The C2 budget factors for FY2018 have not yet been published, even though the Form 471 filing window is open. This makes it impossible for an applicant to accurately calculate its C2 site budgets for FY2018.
- The C2 budget calculator that is available to applicants on the USAC web site is not accurate (and USAC acknowledges as much.) The budget calculator does not incorporate the most update to date enrollment numbers.

SUMMARY

We implore the FCC to change the procedures for these C2 budget denials. Not only would it improve the process for FY2018, but, if the changes were made soon, it could still help the remaining 2017 C2 applications. (As of February 6, 2018, there are a total of 301 applicants still waiting for FY2017 Category 2 funding decisions. These requests total \$126,364,119.)

³ We realize that the economic indicator for the increase is not available yet; however, as soon as it is available, USAC should publish this information and modify their PIA procedures to ensure that these additional funds are applied to the budget calculations whenever an applicant is found to be over their C2 budget in any building.

Respectfully Submitted,

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**FY2017 C2 BUDGET-RELATED DENIALS
AS OF FEBRUARY 6, 2018**